SGI CANADA Insurance Services Ltd.

2000

ANNUAL REPORT

101-04082/

About SGI CANADA Insurance Services Ltd. (SCISL)

SGI, which has been insuring the things Saskatchewan people value most for more than 50 years, decided in the early 1990s to expand into other provinces – a sound business move, as expansion offered improved protection for customers by spreading the geographical base of risk. To assist expansion, SGI CANADA Insurance Services Ltd. (SCISL) was formed. SCISL is a share-capital company which sells property and casualty insurance products outside Saskatchewan.

SCISL and SGI CANADA are separate operations which share the same head office in Regina. Since 1995, SCISL has also run an operational base out of Winnipeg. SCISL underwrites business outside Saskatchewan, while SGI CANADA sells general insurance products within the province. SCISL began writing business in Manitoba in September 1993 and in Ontario in November 1995.

Board of Directors

Donald W. Cody, Chair
Mayor of Prince Albert
Prince Albert, Sask.

J. Walter Bardua, Vice-Chair
Retired insurance professional
Nanaimo, B.C.

Joan Baldwin
Doctor
Regina, Sask.

Joan D. Bellegarde
Executive Director
File Hills Qu'Appelle Tribal Council
Fort Qu'Appelle, Sask.

Dale Bloom
Corporate Secretary
Crown Investments Corporation
Regina, Sask.

Larry Fogg
President and CEO, SGI
Regina, Sask.

William J. A. Heidt
Business owner
Kelowna, B.C.

Nancy E. Hopkins
Lawyer
Saskatoon, Sask.

P. James Mills
Insurance broker
Elrose, Sask.

Dana C. Stutsky
Insurance adjuster
Saskatoon, Sask.

Letter of Transmittal

Regina, Saskatchewan
March 2001

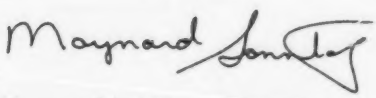
To Her Honour,
The Honourable Lynda Haverstock,
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of SGI CANADA Insurance Services Limited for the year ended December 31, 2000. The financial statements have been audited by KPMG.

I have the honour to be, Madam,

Your obedient Servant,



Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation

Year In Review

2000 was a year that brought numerous challenges for SGI CANADA Insurance Services Ltd. (SCISL) and its employees. At the same time, 2000 also brought tremendous growth and opportunity.

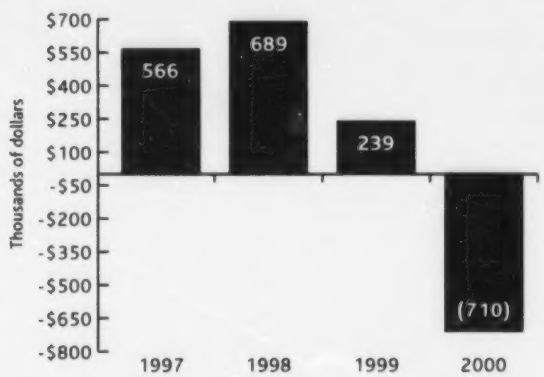
The biggest challenge SCISL faced in 2000 was a loss on its investment in Palliser - a crop hail insurance company underwriting hail insurance in Saskatchewan, Manitoba and Alberta. There was significant hail activity in 2000, at a level not seen in recent years. As a result, the investment in Palliser produced a $710,000 loss, contributing to an overall after-tax loss of $747,000 in 2000. Palliser earned profits for SCISL over the first three years of the investment, and we expect it will be profitable again in the future.

On the positive side, SCISL reached $7.2 million in direct premiums written by year end - a 9% increase over 1999.

One area SCISL does have complete control over is customer service - which remains a top priority. Once again SCISL topped the charts in this area. Manitoba brokers ranked SCISL at number one in *The Manitoba Broker* magazine's annual brokers' service survey – which asks brokers to rate various products and services provided by numerous insurers. This year, SCISL received the highest overall approval rating with an average of 82.5%.

SCISL has a history of ranking at or near the top of this survey. These consistent results are a testament to the hard work and dedication of SCISL employees.

Palliser Investment Earnings History



Total earnings $784,000

Notable brokers' service survey results for SCISL

Category	Approval Rating
Personal Lines	83.8%
Point-of-Sale Policy Insurance	80%
Farm Lines	86%
Commerical Lines	83.8%
Branch Management	90.2%
Overall Average	82.5%

A Growing Company

Since the inception of SCISL in 1993, the company's operating strategy has been careful, controlled growth. In 2000, SCISL continued to build on its foundation with the addition of five new brokers in Manitoba. With a growth rate averaging 15% for the last four years, SCISL has become one of the top 15 insurance companies in Manitoba.

SCISL Brokers

Manitoba	45
Saskatchewan	10
Ontario	3

Expansion into other Canadian provinces began in late 2000, with SGI CANADA's partnership with the Insurance Company of Prince Edward Island (ICPEI). For an investment of $2,768,000, SGI CANADA purchased 75% of the shares of ICPEI.

As a subsidiary of SGI CANADA, SCISL will play a vital role in the partnership. SCISL will provide reinsurance coverage for ICPEI and will underwrite its commercial business with local people in the region who have many years of experience. The partnership will also provide SCISL employees with the opportunity to gain experience with underwriting in another region.

The partnership with ICPEI is an important investment. It will help SCISL to spread risk while also creating more jobs in Saskatchewan. Once established in PEI, it will also provide SCISL with the opportunity to grow in other markets, namely New Brunswick and Nova Scotia.

Looking Ahead – 2001

The main focus for the year ahead will be on developing the business in PEI, and working on building new underwriting and claims systems to support the growth. We are looking forward to the next 12 months and to working with our new partners to develop this new region for SCISL.

It's also important for SCISL to continue on the track of careful, controlled growth in Manitoba and Ontario. We'll be looking to add new brokers and also re-examine some of the product offerings. Emphasis will continue to be placed on ensuring the quality of SCISL's book of business through diligent underwriting.

Management Discussion and Analysis

Introduction

The information in this discussion and analysis should be read in conjunction with SGI CANADA Insurance Services Ltd.'s (the Corporation's) financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

SGI CANADA Insurance Services Ltd. (SCISL) is a business corporation incorporated under the *Business Corporations Act* of Saskatchewan and is owned by three Saskatchewan government organizations; SGI CANADA, Saskatchewan Auto Fund and Crown Investments Corporation Industrial Interests Inc. The Corporation was formed in 1990 to serve as the expansion vehicle for SGI CANADA outside the Province of Saskatchewan.

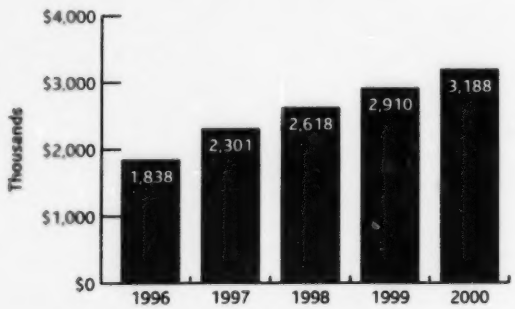
Overview of 2000

In 2000, SCISL incurred an after-tax loss of $747,000, compared to a net profit after tax of $188,000 in 1999. The loss related primarily to the loss incurred on Palliser, a crop hail insurance company underwriting hail insurance in Saskatchewan, Manitoba and Alberta, which SCISL has invested in. Since SCISL invested in the company in 1997, with the exception of the $710,000 loss in 2000, it has produced profits each year. The combined earnings on this investment to the end of 2000 are $784,000, which translates into an average annual compound return on the investment of 10%.

The Corporation invested $2,768,000 at the end of the year for a 75% ownership in a property and casualty insurance company in Prince Edward Island. As the share transfer took place in early January, the investment in the Insurance Company of Prince Edward Island (ICPEI) is recorded as a deposit in the 2000 financial statements. ICPEI writes more than $6.0 million of primarily auto and personal lines premiums annually, with all of the business in Prince Edward Island.

Premium volume continued to grow in 2000, with a 10% increase in net premiums written. Since 1995, net premiums written have increased by 261%.

Net Premiums Written



Underwriting Operations

SCISL follows the underwriting policies of its parent, SGI CANADA, which has been successfully selling property and casualty insurance in Saskatchewan for more than 55 years. The philosophy is to underwrite products based on sound underwriting principles and to provide outstanding customer service. Property policies are underwritten based on prior claims experience and the condition and replacement value of the property.

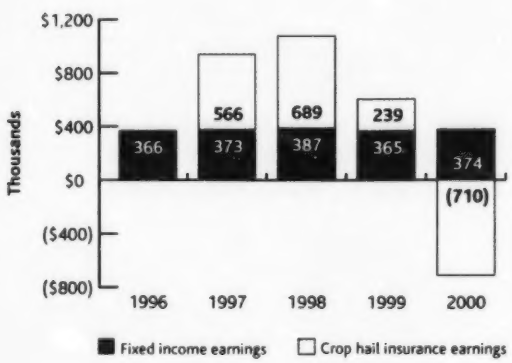
The 2000 underwriting loss of $700,000 was an increase over 1999's $379,000 loss. The deterioration in underwriting results was primarily attributable to increased claims costs from property claims. Commission and premium tax costs are based on the premium amount. Due to an increase in premium volumes, the commission and premium tax expenses increased accordingly in 2000. Administrative expenses were essentially the same as last year.

A factor affecting the Corporation's underwriting profitability is its conservative reinsurance policy which results in a high percentage of the commercial business being reinsured. This business has higher exposure than the personal business and can be very volatile, but since the beginning of the program, with the exception of 2000, it has been profitable for the reinsurer, SGI CANADA. While this policy has adversely affected the SCISL underwriting profit, it has reduced the exposure to large losses. As the equity and premium base grows, more of the risk will be retained by SCISL.

Investment Earnings

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations.

The investment portfolio produced a loss in 2000 of $336,000 compared to earnings of $604,000 in 1999. The decreased investment performance is a result of SCISL's share of the loss from the investment in Palliser. SCISL's share of the loss was $710,000, compared to a $239,000 profit last year. While results from this investment were poor in 2000, since initial investment in 1997, it has produced earnings for the Corporation of $784,000, or a 10% average annual compound return on investment.



Reinsurance

Reinsurance is the process of passing part of a risk, or risks, from one insurance company to another insurance company (reinsurer). Two of the key reasons for reinsuring are that it increases an insurance company's capacity to write business and it provides greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

Because SCISL is still relatively new in markets where it sells insurance and has a small capital base ($9.7 million), it reinsures a large portion of the business that it writes (2000 - 56%). The reinsurance program limits the Corporation's liability to a maximum amount of $50,000 on any one loss, and to $500,000 on any one catastrophe occurrence. SGI CANADA, SCISL's parent, with a capital base of $93.0 million, is SCISL's main reinsurer.

Liquidity

Given the conservative reinsurance program to protect against large losses and major catastrophes, and its conservative investment portfolio, SCISL is confident there is sufficient cash to meet all financial obligations as they fall due.

Risk Management

The following issues and risks, among others, should be considered when evaluating SCISL:

Catastrophe exposure

Property and casualty insurers are subject to losses arising from catastrophic events. To contain this risk, SCISL purchases catastrophe reinsurance protection which reduces the potential impact from major losses as a result of catastrophic events. SCISL is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some reduction in premiums until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers and chartered banks.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported. These provisions are estimates and the ultimate payment on these claims may differ from the estimate.

Investment returns

SCISL's profit is derived from the investment portfolio and therefore fluctuations in returns will affect the net profit for the year. The portfolio is split between fixed income securities (65%), which produce stable earnings, and the crop hail insurance investment (35%), with earnings that can change significantly from year to year.

Because of the significance of the investments in Palliser and ICPEI, SCISL is actively involved at the Board of Directors level as well as on committees of those Boards. This ensures SCISL is actively involved in policy-making decisions and can adequately protect its investment.

Looking Forward

With the purchase of ICPEI finalized in early 2001, the emphasis will now be on developing the infrastructure for, and making enhancements to, computer systems. As well, SCISL will be assuming a number of ICPEI's administrative functions which will be incorporated in early 2001.

SCISL will continue to grow the business in Manitoba by maintaining its positive relations with brokers and claim customers. As well, acquistions and alliances will continue to be explored with other insurance companies.

Responsibility for Financial Statements

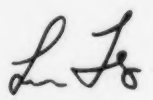
The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

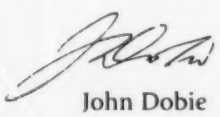
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President



John Dobie
Vice President
Finance and Administration

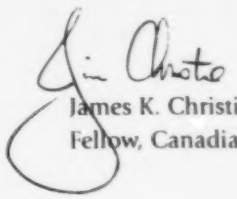
February 12, 2001

Actuary's Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its statement of financial position at December 31, 2000 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Toronto, Ontario
February 12, 2001

James K. Christie
Fellow, Canadian Institute of Actuaries

Auditors' Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

We have examined the statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 12, 2001

Statement of Financial Position

December 31	2000	1999
Assets		
Cash and treasury bills (note 4)	$ 156,611	$ 576,160
Accounts receivable (note 5)	2,029,603	1,345,672
Deferred policy acquisition costs	1,034,631	963,744
Unpaid claims recoverable from reinsurers (notes 7 & 8)	2,035,762	1,174,318
Reinsurers' share of unearned premiums (note 7)	2,115,614	1,952,745
Investments (note 6)	10,777,656	8,992,479
	$ 18,149,877	$15,005,118
Liabilities		
Accounts payable	$ 219,679	$ 239,957
Premium taxes payable	142,087	134,941
Deferred income taxes	–	141,599
Future income taxes	100,967	–
Amounts due to reinsurers (note 7)	26,378	210,045
Provision for unpaid claims (note 8)	3,408,761	2,090,916
Unearned reinsurance commissions	717,070	662,555
Unearned premiums	3,831,839	3,526,929
	8,446,781	7,006,942
Shareholders' Equity		
Share capital (note 11)	6,000,100	6,000,100
Deposit on new share issuance (note 11)	2,700,000	–
Contributed surplus	1,000,000	1,000,000
Retained earnings	2,996	998,076
	9,703,096	7,998,176
	$ 18,149,877	$15,005,118

(see accompanying notes)

Statement of Operations and Retained Earnings

year ended December 31	2000	1999
Premiums written	$ 3,187,582	$ 2,909,741
Premiums earned (note 7)	**$ 3,045,542**	$ 2,749,253
Claims incurred (note 7)	2,407,803	1,852,439
Commissions and premium taxes (note 7)	893,303	834,235
Administrative expenses (note 7)	444,496	441,499
Total claims and expenses	3,745,602	3,128,173
Underwriting loss	(700,060)	(378,920)
Investment earnings (loss) (note 9)	(335,652)	603,992
Net profit (loss) before income taxes	(1,035,712)	225,072
Income taxes (note 10)	(288,950)	37,471
Net profit (loss)	(746,762)	187,601
Retained earnings, beginning of year, as restated (note 3)	749,758	810,475
Retained earnings, end of year	$ 2,996	$ 998,076

(see accompanying notes)

Statement of Cash Flows

year ended December 31	2000	1999
Cash provided by (used for) operating activities		
Net profit (loss)	$ (746,762)	$ 187,601
Non-cash items:		
Amortization of bond premium	79,234	77,187
Realized (gain) loss on disposal of investments	253	(9,529)
(Income) loss from equity investment	709,619	(238,868)
Income taxes	(288,950)	37,471
Change in non-cash operating items:		
Accounts receivable	(683,931)	(114,057)
Deferred policy acquisition costs	(70,887)	(140,221)
Unpaid claims recoverable from reinsurers	(861,444)	(114,651)
Reinsurers' share of unearned premiums	(162,869)	(231,853)
Accounts payable	(20,278)	(3,062)
Premium taxes payable	7,146	12,580
Amounts due to reinsurers	(183,667)	(92,396)
Provision for unpaid claims	1,317,845	383,830
Unearned reinsurance commissions	54,515	79,022
Unearned premiums	304,910	392,341
	(545,266)	225,395
Cash provided by (used for) investing activities		
Purchases of investments	(3,628,371)	(663,378)
Proceeds on sale of investments	1,054,088	136,860
	(2,574,283)	(526,518)
Cash provided by financing activities		
Deposit on new share issuance	2,700,000	–
Decrease in cash and cash equivalents	**(419,549)**	(301,123)
Cash and cash equivalents:		
Balance, beginning of year	576,160	877,283
Balance, end of year	**156,611**	576,160
Plus treasury bills greater than 91 days to maturity from acquisition date	–	–
Cash and treasury bills per statement of financial position	**$ 156,611**	$ 576,160

(see accompanying notes)

Notes to the Financial Statements

December 31, 2000

1. STATUS OF THE CORPORATION

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated July 18, 1990, under the *Business Corporations Act* of Saskatchewan. The Corporation holds a Saskatchewan provincial insurers' licence under the *Saskatchewan Insurance Act*. The Corporation is licensed to conduct business in Manitoba and Ontario.

Saskatchewan Government Insurance (SGI CANADA) owns 53% of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claims and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds are recorded at amortized cost. Treasury bills are recorded at cost. Gains and losses on the sale of investments are recognized on the date of settlement.

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies. The investment is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Corporation's share of the hail business earnings or losses and reduced by cash received.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums
Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes
Income taxes are accounted for using the liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

3. CHANGE IN ACCOUNTING POLICY

During 2000, the Corporation moved from the deferred method to the asset and liability method of accounting for income taxes. Under the new standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

This change was adopted retroactively without restatement of the 1999 comparative figures. 2000 deferred taxes were decreased by $141,599, future taxes increased by $389,917 and beginning retained earnings were adjusted as follows:

	2000
Retained earnings, beginning of year, as previously reported	$ 998,076
Change in accounting policy	(248,318)
Retained earnings, beginning of year, as restated	$ 749,758

4. CASH AND TREASURY BILLS

Cash and treasury bills at the end of 2000 consisted of cash only. Cash and treasury bills at the end of 1999 included treasury bills and commercial paper that had an average effective interest rate of 5.2% and an average remaining term to maturity of 18.5 days. The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating agency.

5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2000	1999
Due from brokers	$ 904,398	$ 513,814
Financed premiums receivable	812,209	689,749
Due from reinsurers	170,019	6,333
Accrued investment income	96,372	112,991
Other	46,605	22,785
Total accounts receivable	$ 2,029,603	$ 1,345,672

6. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 5,226,314	$ 5,655,622	$ 5,499,125	$ 5,774,528
Investment in crop hail insurance business	2,783,735		3,493,354	
Deposit on investment in ICPEI	2,767,607		-	
Total investments	$10,777,656		$ 8,992,479	

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 5% of the market value of investment assets for corporate bonds and debentures and 25% for bonds and debentures issued by any one province. Also, a minimum of A is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	2000		1999	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 2,388,150	6.0%	$ 2,687,207	6.0%
After five	1,259,771	8.5%	1,266,015	8.9%
Canadian provincial:				
One or less	—	—	804,019	5.3%
After one through five	1,578,393	6.0%	741,884	5.9%
Total bonds and debentures	$ 5,226,314		$ 5,499,125	

Deposit on investment in ICPEI:

Included in investments is a $2,768,000 deposit for the purchase of a 75% interest in the Insurance Company of Prince Edward Island (ICPEI). The purchase transaction from will be completed January 2001.

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures all contracts of insurance with SGI CANADA, which limits the liability of the Corporation to a maximum amount of $50,000 on any one loss and $500,000 on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and administrative expenses:

	2000	1999
Premiums earned	$ 3,831,938	$ 3,474,871
Claims incurred	3,203,059	1,757,860
Commissions and premium taxes	827,405	745,925
Administrative expenses	460,469	428,232

8. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims in 2000 and 1999 are as follows:

	2000	1999
Net unpaid claims – beginning of year	$ 916,598	$ 647,419
Payments made during the year relating to prior year claims	(688,251)	(413,000)
Excess relating to prior year estimated unpaid claims	(40,877)	(9,000)
Net unpaid claims for claims of prior years	187,470	225,419
Provision for claims occurring in the current year	1,185,529	691,179
Net unpaid claims – end of year	$ 1,372,999	$ 916,598

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	2000			1999		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Property	$ 3,162,474	$ 1,902,654	$ 1,259,820	$ 1,746,949	$ 966,059	$ 780,890
Liability	246,287	133,108	113,179	343,967	208,259	135,708
Total	$ 3,408,761	$ 2,035,762	$ 1,372,999	$ 2,090,916	$ 1,174,318	$ 916,598

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2000	1999
Interest	$ 373,967	$ 365,124
Income (loss) from crop hail insurance business	(709,619)	238,868
Total investment earnings	($ 335,652)	$ 603,992

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 46.12% to income before income taxes. The reasons for the differences are as follows:

	2000	1999
Computed tax expense	$ (477,670)	$ 103,803
Increase (decrease) resulting from:		
Equity in earnings of crop hail insurance investment not subject to taxation	130,911	(74,909)
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	2,824	-
Other	54,985	8,577
Total income tax expense	$ (288,950)	$ 37,471

11. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. At the end of 2000 there are 1,200,100 (1999 - 1,200,100) common shares issued. In 2000, the Corporation received a $2.7 million deposit for new common shares to be issued in 2001.

12. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable
(d) income taxes payable
(e) premium taxes payable
(f) amounts due to reinsurers

(ii) For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices.

(iii) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

13. RELATED PARTY TRANSACTIONS

SGI CANADA provides management and administrative services to the Corporation as well as being the reinsurer (note 7). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were $58,082 (1999 - $55,576) and accounts payable are $12,535 (1999 – $16,054).